EXHIBIT B

Swap Financial Group

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MEMORANDUM

To:	Gen D'Agostino Tobacco Settlement Financing Corporation (New York)
From:	Peter Shapiro, James Vergara
Concerning:	Calculation of Loss for TSFC's Two Reserve Fund Agreements with Lehman Brothers Special Financing, Inc.
Date:	October 19, 2009

Per your request, Swap Financial Group ("SFG") has prepared a Calculation of Loss for the Reserve Fund Agreements ("RFAs") between the Tobacco Settlement Financing Corporation (New York) ("TSFC") and Lehman Brothers Special Financing, Inc. ("LBSF"). Under the terms of the RFAs, TSFC, as the Burdened Party, has the right to determine a Termination Amount based on "the arithmetic mean of quotations from at least three Dealers of the amount, if any, that each such Dealer would require the Burdened Party to pay to the Dealer or would pay to the Burdened Party in consideration of such Dealer entering into an agreement with the Burdened Party which would have the effect of preserving for the Burdened Party the economic equivalent of its investment rights under this Agreement...." On September 11, 2009, SFG, on behalf of TSFC, distributed a term sheet, execution copies of the RFAs and credit and financial information on TSFC to 14 Dealers in order to collect quotations to determine the Termination Amount. Through October 16, 2009, the following responses were received from Dealers that received the quotation package:

Dealer	Response	Dealer	Response
Bank of America	Pass	Merrill Lynch	Pass
Bank of New York	Pass	Morgan Stanley	Pass
Barclays Bank	Pass	PNC Bank	Pass
Citi	Pass	Royal Bank of Canada	Pass
Deutsche Bank	Pass	UBS	Pass
Goldman Sachs	Pass	Wachovia Bank	Pass
JPMorgan	Pass	Wells Fargo Bank	Pass

Given that TSFC was unable to obtain quotations, the Agreement further describes the Termination Amount "as reasonably determined in good faith by the Burdened Party, to be the Burdened Party's total losses and costs, or gains, in connection with a termination, including any loss of bargain, cost of funding, or, at the election of the Burdened Party but without duplication, any loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position...."

Under the terms of the RFAs, TSFC delivered to LBSF amounts equal to the "Scheduled Reserve Amounts" or $170,659,179 for the Series 2003A RFA and $221,582,344 for the Series 2003B RFA in exchange for Eligible Securities to deposit with the Trustee to satisfy the debt service reserve requirements of its Series 2003A and 2003B Tobacco Settlement Asset-Backed Bonds (State Contingency Contract Secured) (the "Bonds"). When the securities matured, TSFC would again deliver the "Scheduled Reserve Amounts" to LBSF in exchange for new securities. For the periodic purchase of securities, LBSF provided TSFC with guaranteed rates of return on the "Scheduled Reserve Amounts." Under the 2003A RFA, which had a scheduled termination date of June 1, 2023, LBSF provided TSFC with a guaranteed rate of return of 3.722%. Under the 2003B RFA, which had a scheduled termination date of June 1, 2023, LBSF provided a guaranteed rate of 4.687%.

Lehman Brothers Holdings, Inc., the credit support provider for LBSF filed for bankruptcy on September 15, 2008 and LBSF ceased to perform under terms of the RFA. When the securities in the RFA matured, TSFC was left to reinvest the proceeds in the open market, at significantly lower yields than the guaranteed rates originally offered by the RFAs. LBSF itself filed for bankruptcy on October 3, 2008. For the purpose of this Calculation of Loss, SFG has valued the RFAs as of the close of business on October 16, 2009.

In order to calculate TSFC's Loss, we began by analyzing the RFA cash flows. Under the RFAs, Lehman guaranteed fixed rates of return for TSFC's reserve funds, to be realized in the form of the discount on the securities that LBSF agreed to deliver to the Trustee on a periodic basis. The scheduled term of the RFAs extended through June 1, 2023, though the Agreement could be terminated prior to that date, if, among other things, any of the parties to the RFAs defaulted on their obligations. To value the cash flows under the RFAs, the appropriate method is to use a similar interest rate swap in which one payer (LBSF) would pay a fixed rate of 3.722% for the 2003A RFA and 4.687% for the 2003B RFA and the other payer (TSFC) would pay floating rates.

The use of a LIBOR plus spread analysis with an interest rate swap to value agreements like the RFAs is the broadly accepted market methodology. In the case of the RFAs, the value of the floating leg is of great importance, since the value of the fixed leg is a given. The value of the floating leg should represent the value of the securities which are going to be delivered – short-term obligations (treasuries, agencies, commercial paper or pre-refunded municipal bonds) rated at least F-1 by Fitch Ratings and A-1 by Standard & Poor's. In addition, a concentration limit was set on the types of securities that could be delivered under the RFA. This would make deliveries more costly to the provider and more valuable to TSFC than a similar agreement with no such limitation. The value of the floating leg should also incorporate the ongoing credit risk of the RFAs as agreements in the first loss position of municipal tobacco securitizations. Though TSFC's bonds enjoy the additional security of State Contingency Contracts, the reserve funds (and their replenishment) do not. To complete the Calculation of Loss, SFG has also included the profit or spread component that would be charged by another provider to replace the RFA, if such a replacement agreement could be found.

Commercial Paper Spreads

Given that commercial paper likely provided the "cheapest to deliver" option for LBSF under the RFAs, we began our analysis with relevant commercial paper trading spreads. The trading relationship between commercial paper and LIBOR has been volatile since the beginning of the financial crisis. This has been even more dramatic in the case of the structured commercial paper that was likely delivered under the RFAs. Since January 2008, the spread relationship between the Federal Reserve's H.15 Asset-Backed Commercial Paper Index (H15A090Y on Bloomberg) and USD Three-Month LIBOR has shown swings of nearly 320 basis points. (see Chart 1, below) This comes after a very stable trading relationship during the beginning of the decade with spreads within a band of approximately 34 basis points. (see Chart 2, below) The spread currently stands at 0.62 basis points. Given that actual deliveries made by LBSF likely traded at a positive spread to the H.15 Index but also taking into account the benefits to TSFC of the delivery concentration limit, we have assumed a spread to LIBOR for commercial paper delivered under the RFAs of 0.256% or 25 basis points greater than the current spread of the H.15 Index to LIBOR.

Chart 1

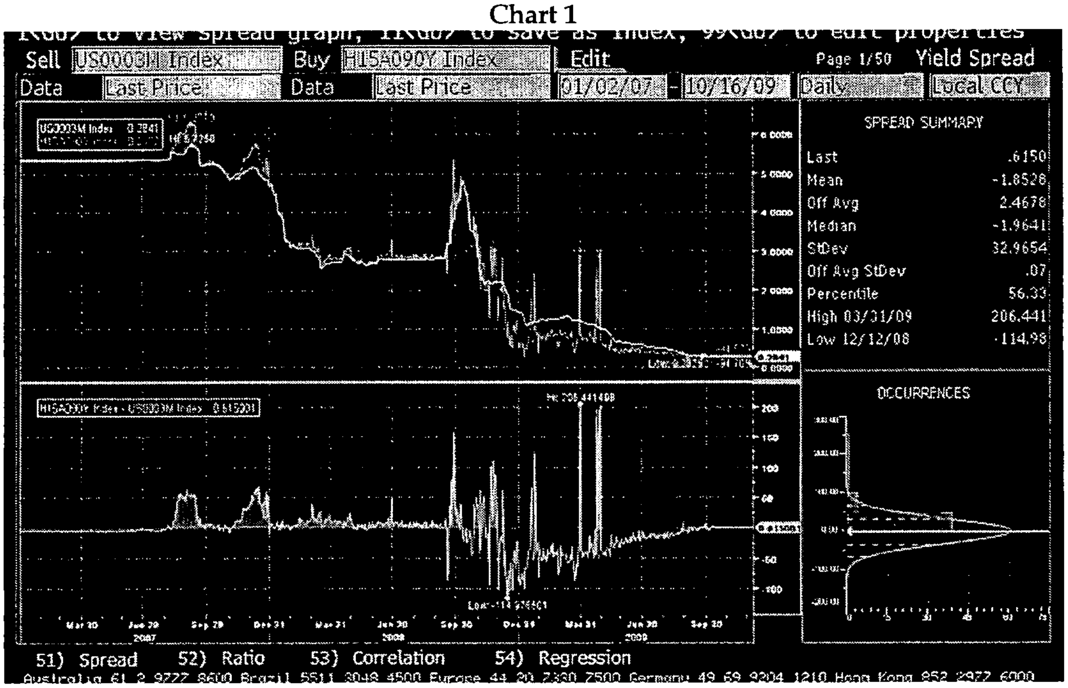

Chart 2

Charges for Municipal Tobacco Credit

Over the past 18 months, the value placed on the credit risk of municipal tobacco bonds has also show significant volatility, initially escalating sharply then easing of late. The escalation in the valuation of risk for these assets was greater than the increases in risk valuation that occurred for many other forms of credit-based fixed income assets during the current financial crisis. Given the TSFC's bonds possess the enhanced security of State Contingency Contracts, their own trading value does not provide an accurate assessment of stand-alone municipal tobacco credit risk.

The Tobacco Settlement Financing Corporation (NJ) 5% bonds maturing in June 2041 (CUSIP: 888808DF6) represent a benchmark issue (the $3.6 billion transaction was completed in January 2007) and provide a better illustration of the relative value of municipal tobacco credit. The bonds are currently trading at a yield of 7.377%. The spread of that bond compared to the Bloomberg 30-Year General Purpose Revenue Bond Index (A-Rated) (486M30Y on Bloomberg) has also exhibited volatility and widening, though conditions have improved of late (see Chart 3, below). On October 16, 2009 this spread was 1.927%. Given that credit protection in the form of credit default swaps is not available for these specific bonds or any municipal tobacco bonds in the market, it is fair to estimate that a Dealer would value municipal tobacco risk at a level greater (wider) than the above-referenced spread. For the purposes of our analysis, we have assumed a value for the risk of the municipal tobacco credit of 2.427% or 0.50% greater (wider) than the current spread.

Chart 3

Profit Component

Lastly, our analysis takes into account the profit or spread component that would be included in any replacement investments if TSFC were able to replace the economic bargain afforded to it by the RFAs. Given the challenging nature of the municipal tobacco credit, as well as the widening of bid-offer spreads in the fixed income markets in general, and in the municipal derivatives market in specific, we would expect a dealer to charge a profit component on the order of 0.25% to provide a replacement RFA, if such an agreement could even be replicated.

Calculation of Loss

In the table below, we summarize the various components that would be included in calculating the floating rate for the RFA, which would be incorporated into the Calculation of TSFC's Loss.

	Fixed Leg	*Floating Leg (Spread to LIBOR)*			
RFA	*Fixed Rate*	*CP Spread*	*Credit Spread*	*Profit*	*Total Spread to LIBOR*
2003A	3.722%	0.256%	(2.427%)	(0.25%)	(2.421%)
2003B	4.687%	0.256%	(2.427%)	(0.25%)	(2.421%)

Using the spreads to LIBOR described above for the floating leg of our LIBOR plus spread swap analysis, SFG arrived at Loss values of $42,568,694 for the 2003A RFA and $78,451,848 for the 2003B RFA, in TSFC's favor.

Cost of Non-Performance

In addition to the Loss amounts derived above, TSFC was also harmed by Lehman's non-performance under the RFAs from December 1, 2008 (when new securities were to be delivered) until October 16, 2009. Instead of the Guaranteed Rates on the RFAs, TSFC's reserve funds were invested in short-term Eligible Securities yielding significantly lower rates. From December 1, 2008 until October 16, 2009, TSFC's 2003A reserve fund realized earnings of $303,790.00 and TSFC's 2003B reserve fund realized earnings of $384,668.25. The 2003A reserve fund should have earned $5,557,942.81 from December 1, 2008 until October 16, 2009 while the 2003B reserve fund should have earned $9,087,368.89 over the same period. The differences of $5,254,152.81 for the 2003A RFA and $8,702,700.64 for the 2003B RFA should therefore be added to the Loss calculation.

RFA	*Fixed Rate*	*Notional Amount*	*Loss*	*Loss from Non-Performance*	*Total Loss*
2003A	3.722%	$170,659,179	42,568,694	5,254,153	$47,822,847
2003B	4.687%	$221,582,344	78,451,848	8,702,701	$87,154,549

In summary, SFG has calculated Loss values of $47,822,847 for the Series 2003A RFA and $87,154,549 for the Series 2003B RFA, in TSFC's favor. SFG has based its assumptions on market data available to us and our own experience in valuing agreements similar to the RFAs.